

10 major trends to watch in Korean economy this year

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At the beginning of 2002, when uncertainty about the economy remains very high, it is worthwhile to monitor and forecast what kinds of events or trends will occur through the year.

Trend 1: Continuing low economic growth, higher unemployment

Although the domestic economy is likely to recover in 2002, the annual GDP growth rate will remain around 4 percent, lower than the economy's estimated growth potential of 5.1 percent.

Of course, the co-hosting of the World Cup (with Japan) will add impetus to the recovery. However, a V-shaped economic recovery seems out of the question, considering the high continuing uncertainties in domestic and international environments. To mention some of them, the global recession, especially in IT industries, is expected to be prolonged. And the recent depreciation of the yen will also impact negatively on Korea's exports.

Such uncertainties will not only moderate the speed of the nation's economic recovery, but will also aggravate unemployment among younger people fresh out of school, as firms employ fewer people while preferring to hire, if at all, experienced workers that do not require expensive training.

Trend 2: Ongoing financial industry reshuffling

The financial industry will continue to reshuffle this year, continuing last year's trends of universal banking, mega-mergers and adoption of financial holding company structures by major domestic financial institutions, which have already led to the wide-ranging transformation of the industry.

Most importantly, these trends will result in the creation of one or two more "super" banks through mergers, almost completing the commercial banking industry's reshuffle by year-end.

The non-bank financial industry, including investment trust companies, securities firms, mutual savings & finance companies, and credit unions, which has showed fairly slow reform to date, may also be swiftly reorganized through a series of mergers and acquisitions, leaving the industry poised for universal banking.

In this regard, large commercial banks will also be active in acquiring those non-banking financial institutions including securities firms or insurance companies. Such changes will be

accelerated by the introduction in 2003 of "bancassurance", which will allow banks and insurance companies to cross sell their products.

Trend 3: Domestic firms' adoption of 'global standards and practices'

As the boundaries between domestic and foreign markets continue to rapidly blur and the phenomenon of a "global domestic market" becomes more and more vivid, the restructuring of domestic industries will accelerate, with many under-performing firms forced out of the market.

Oftentimes the key to a company's survival is the stock market, where foreign investors are a significant force. Also most domestic companies still lag far behind leading foreign companies in terms of managerial efficiency.

In reaction, domestic companies will strive even more to adopt global standards and practices, such as higher transparency in accounting and more efficient management skills, in order to engender trust among customers and investors, and to enhance their chances of surviving foreign firms' advancement into the domestic market.

Accordingly, management stressing global standards, adopted by large-sized companies since the currency crisis, is likely to spread into most parts of the corporate world.

Trend 4: Wider spread of 'digital convergence'

Korea will likely become a testing ground for the world in the provision of broadband Internet access based on its strength in high-speed Internet access and mobile phone services, which boast 7 million (number 1 in the world) and 2.8 million subscribers, respectively.

If the new services succeed to the same degree that high-speed Internet access has, the boundaries between devices, services and even industries will dissolve. This trend can be termed "convergence" or "digital convergence".

In terms of devices, wholly new types of products, such as all-in-one products that integrate cell phone, PDA and PC functions will appear.

In the corporate sector, the boundaries between companies and industries will disappear through strategic alliances or cooperation between firms. For instance, for the construction of digital networks in homes and offices, broadband service providers, appliance makers and construction firms will have to cooperate with each other.

In addition, as the concept of networking begins to widely affect people's everyday lives, enriching their needs, companies will shift their focus to satisfying those needs. Thus, they will look more to developing brand power and images in order to appeal and respond to consumers' rapidly changing tastes.

Trend 5: Further contraction of agriculture industry

The nation's agriculture industry has suffered for a long time from oversupply due to increased agricultural imports since the settlement of the Uruguay Round in 1994. The oversupply has caused the prices of agricultural products and farmers' income to decline, with the result that the average debt burden of farm households reached 20.2 million won as of the end of 2000.

To make matters worse, China's entry into the WTO in 2001 and the opening of the domestic rice market scheduled for 2004 are expected to bring about an increase in cheaper agricultural imports. This trend will hurt the domestic agriculture industry further.

Despite these difficulties, however, there are some potential bright spots for the industry. Venture-style efforts by many farmers are likely to bear fruit soon in the form of high-value added items such as brand-named rice and genetically modified food products.

Also, as the industry strives to take advantage of new bio- and digital technologies, as well as people's new interest in travel to rural areas (due to the greater leisure time allowed by the five-workday system), new and profitable business models will emerge.

Trend 6: Deepening polarization in society

Since the currency crisis, the income of the nation's highest ten percent has increased to seven times as much as that of the lowest ten percent, suggesting that the nation's income distribution structure has deteriorated. Similarly, in the corporate sector, only a handful of top companies are realizing large profits, while traditional corporations and less fortunate ones are being forced out of business.

And as competition grows ever more fierce with the trends of globalization and digitalization dominating the world market, the gap between the strong and the weak will widen.

With the deepened polarization of society, various society-wide efforts to cure many issues like income inequality will be implemented. For instance, the government may attempt to ease these frictions by creating more jobs and securing an increased social welfare budget. But in a market economy system, there are limits to these kinds of social safety nets. Therefore, social tension from polarization will remain a serious problem.

Trend 7: Wider implementation of five-day workweek

Also in 2002, a five-day-work week system, in contrast to the still dominant six-day week system, will become more popular in the corporate sector. Some large-sized firms, foreign companies and financial institutions have already embraced the system. Indeed, among the 100 largest companies in Korea, three firms have fully implemented the system, and another sixty-seven have introduced a bi-weekly holiday system (that allows every other Saturday off).

Following their example, many more domestic companies will adopt the system, using their discretion. Accordingly, the focus of people's daily lives will shift more toward family and

leisure time. As an additional benefit, leisure and entertainment industries will grow rapidly in response.

Trend 8: Advent of era of 'half-day,' countrywide travel

With the unprecedented terrorist attacks on the U.S. in September of 2001, there has been a heightened domestic trend characterized by the better appreciation of family and life. Also due to the wider implementation of a five-day work week system as mentioned previously, people have more time to spare for travel.

Along these lines, six new expressways were opened at the end of last year to allow travel to any point in the country within a half-day, to allow greater leisure time. The additions are the first significant improvement in the nation's transportation infrastructure since 1970, when the Gyeongbu Expressway (a 428 km-long highway connecting Seoul and Pusan, the nation's two largest cities) opened.

Trend 9: Increasing uncertainties, confusion over economic policies

Nearing the end of the current presidential term, the exercise of strong political leadership will become more difficult. The two upcoming major elections in 2002, the presidential election and the elections for local government officials, raise the possibility that economic policies may be made, or even postponed, out of political considerations.

Consequently, domestic companies may find it hard to chart a clear course in their business planning and activities. Therefore, corporate management in 2002 is expected to become more conservative.

Trend 10: Bleak outlook for South-North Korea relationship

In 2002, the South-North Korean relationship is anticipated to progress little due to the growing economic uncertainties surrounding the South. In fact, economic cooperation between the two parties, such as the Mt. Geumgang tour program, may be scaled down.

And things do not look much better on the international scene either. In particular, the Bush administration is expected to take a tough stance with the North Korean government in the wake of the terrorist attacks on the U.S. For its part, Japan also seems set to stand firm against North Korea, as evinced by its regulation of the funds related to the General Association of Korean Residents in Japan and its sinking of a suspicious fishing vessel, which appeared to be a North Korean spy ship, in its exclusive economic zone. Accordingly, a stepping up in North Korea's relations with the outside world seems unlikely.

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